

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 1409

EXDIS

E.. 11652: GDS
TAGS: EFIN, PEPR, TU, US
SUBJ: US-TURKISH CONSULTATIONS: ECONOMIC GROUP MEETING

REF: (A) ANKARA 1406, (B) ANKARA 1373

1. SEPARATE SESSION OF US AND TURKISH ECONOMIC EXPERTS
MET LATE AFTERNOON FEBRUARY 22 TO REVIEW IN DETAIL
TURKISH SUGGESTIONS OF WAYS IN WHICH US MIGHT HELP
TUEKEY ECONOMICALLY IN SHORT AND MEDIUM TERMS. MEETING
WAS LED ON TURKISH SIDE BY AMBASSADOR NAZIF CUHRUK,
DEPUTY SECRETARY GEENRAL FOR ECONOMIC AFFAIRS,
MFA, AND ON US SIDE BY JOSEPH A B WINDER, DIRECTOR,
OFFICE OF INTERNATIONAL MONETARY AFFAIRS, DEPARTMENT
OF STATE.

2. AMBASSADOR CUHRUK OPENED MEETING BY REFERRING TO
EARLIER REMARKS BY SECRETARY GENERAL ELEKDAG THAT IT
WAS NECESSARY TO RETURN TURKISH/US RELATIONS TO NORMAL
AFTER PERIOD OF SHORTCOMINGS. HE OBSERVED THAT IT WOULD
NOT BE POSSIBLE TO HAVE GOOD DEFENSE OR OTHER RELATIONS
WITH USG WITHOUT GOOD ECONOMIC RELATIONS. TURKEY'S
ECONOMIC SITUATION NOW REQUIRES SOME SPECIAL EFFORT FROM
USG. CUHRUK SAID THAT TURKEY'S STABILIZATION PROGRAM
WLL BE PUBLISHED NEXT WEEK: IT WOULD PROVIDE FOR AUSTERITY
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MEASURES IN MANY FIELDS. TURKISH GOVERNMENT WILL
PRESENT IT TO IMF.

3. WINDER REPLIED THAT US SIDE SHARED VIEW THAT IT WAS
NOT POSSIBLE TOSEPARATE ECONOMICS FROM OTHER ASPECTS
OF US/TURKISH RELATIONS. HE THOUGHT, HOWEVER, IT WAS
IMPORTANT THAT TURKISH SIDE SHOULD UNDERSTAND FROMEWORK

IN WHICH US CONDUCTS ITS INTERNATIONAL ECONOMIC RELATIONS. USG DOES NOT HAVE TOTAL FLEXIBILITY TO DEAL WITH ECONOMIC PROBLEMS AND MUST OPERATE WITHIN CONSTRAINTS OF EXISTING POLICY FRAMEWORK. IT WOULD BE HELPFUL TO US, HE SAID, TO GET MOST RECENT PROJECTION OF CURRENT ACCOUNT DEFICIT IN 1978 AND TURKISH PROSPECT FOR LONG-TERM PROJECT FINANCING AS WELL AS TURKEY'S THOUGHTS ABOUT POSSIBILITY OF REACTIVATING OECD CONSORTIUM.

4. WINDER ANSWERED QUESTIONS RAISED BY TURKISH SIDE:

A. DEBT RESCHEDULING. RESCHEDULING IS DONE ONLY IN EXTREME BALANCE-OF-PAYMENTS CIRCUMSTANCES WHICH ENTAIL RISK OF DEFAULT. US WOULD BE WILLING TO EXPLORE POSSIBILITY OF RESCHEDULING FOR TURKEY BUT US MUST LIMIT ITS CONSIDERATIONS TO PUBLIC DEBT. ONLY WHEN AMERICAN CREDITS ARE GUARANTEED BY A USG AGENCY, WOULD GOVERNMENT BE IN POSITION TO ASSUME ANY RESPONSIBILITY FOR DEBTS TO PRIVATE EXPORTERS OR PRIVATE BANKS. PARIS CLUB HAS BEEN PRIMARY FORUM FOR RESCHEDULING IN PAST, ALTHOUGH OTHER MULTILATERAL GROUPS COULD BE ARRANGED AS WELL. USG CANNOT AGREE TO RESCHEDULING PUBLIC DEBT BY ITSELF. IT CANNOT, IN EFFECT, PAY SOMEONE ELSE'S DEBT WHILE ITS OWN DEBT REMAINS UNPAID. PRIVATE BANKS HAVE TO ASSUME RISK
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JUST AS GOVERNMENTS DO.

B. FEDERAL RESERVE BANK. IN RESPONSE TO QUESTION ABOUT AVAILABILITY OF FUNDS FROM THE FEDERAL RESERVE BANK, WINDER REPLIED THAT FUNDS WERE AVAILABLE ONLY FOR SWAP ARRANGEMENTS TO STABILIZE CURRENCY VALUES.

C. EXCHANGE STABILIZATION FUND (ESF). IN SPECIAL CIRCUMSTANCES FUND COULD PROVIDE HELP ON A SHORT-TERM BASIS AS A BRIDGE TO EXPECTED FOREIGN EXCHANGE RECEIPTS. IF, FOR EXAMPLE, TURKEY HAD REACHED AGREEMENT ON A STAND-BY WITH THE IMF AND HAD A DRAWING COMING UP WITHIN THREE MONTHS, IT MIGHT DRAW UPON THE ESF AND REPAY AS SOON AS IMF FUNDS BECAME AVAILABLE. HOWEVER, ESF WAS NOT DESIGNED TO DEAL WITH A PROBLEM THE SCOPE OF TURKEY'S. IT IS DIFFICULT TO CONCEIVE OF USING ESF FOR TURKEY'S PURPOSES.

D. USG GUARANTEE OF COMMERCIAL BANK CREDITS. CUHRUK SUMMED UP HIS UNDERSTANDING THAT THERE WAS NO WAY FOR USG TO GUARANTEE CREDITS OF COMMERCIAL BANKS TO TURKEY OR ANY WAY FOR US TO REDUCE COST OF SUCH CREDITS. US

SIDE CONCURRED.

E. IBRD. US WOULD EXPECT TO SEE CLOSE COOPERATION BETWEEN TURKEY AND IBRD. FOCUS OF US AID TO INTERMEDIATE DEVELOPING COUNTRIES IS WORLD BANK TO WHICH US CONTRIBUTES IMPORTANT FUNDING. US WOULD HOPE THAT SITUATION WOULD BE SUCH THAT IBRD COULD CONTRIBUTE SUBSTANTIAL AMOUNT TO TURKEY; AGAIN, US SIDE EXPECTED THAT NEW IBRD CREDITS WOULD NOT BE POSSIBLE BEFORE TURKEY HAD WORKED OUT AGREEMENT WITH IMF.

F. SECURITY SUPPORTING ASSISTANCE (SSA).
CUHRUK SAID THAT MR NIMETZ'S REMARKS ABOUT SSA HAD NOT BEEN ENCOURAGING. WINDER COMMENTED THAT NIMETZ HAD CONFIDENTIAL

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PRESENTED ACCURATE REFLECTION OF CONGRESSIONAL MOOD. FY 79 BUDGET IS NOW BEFORE CONGRESS. IT WOULD BE EXTREMELY DIFFICULT TO THINK OF AMENDING IT, BUT NOT IMPOSSIBLE. POLITICAL PROBLEMS OVER CYPRUS WOULD, HOWEVER, COMPLICATE THE MATTER. ONE COULD REALISTICALLY CONSIDER SSA ONLY FOR FY 1980. AS MR NIMETZ HAD SAID, US DELEGATION WOULD NOT WANT TO RULE THIS POSSIBILITY OUT. HE DID NOT, HOWEVER, WANT TO HOLD OUT ANY ILLUSIONS THAT SSA WOULD BE EASY TO OBTAIN.

G. FINANCING FROM IRAN AND SAUDI ARABIA. WINDER INQUIRED WHETHER TURKS HAD ANY PROSPECTS FOR REFINANCING OR NEW MONEY FROM IRAN AND SAUDI ARABIA. CUHRUK REPLIED THAT THIS MATTER HAD NOT YET BEEN EXPLORED.

H. EXIMBANK PROJECT FINANCING. EXIMBANK OPERATES IN MANY WAYS LIKE A PRIVATE BANK, WINDER EXPLAINED, OBTAINING ITS MONEY FROM NEW YORK COMMERCIAL FINANCIAL MARKET. IT ANALYZES ECONOMIC SITUATION OF BORROWERS AS A PRIVATE BANK DOES. IT IS, THEREFORE, RELUCTANT TO PROVIDE MUCH NEW PROJECT FINANCING IN TURKEY AT THIS TIME. MR NIMETZ HAD EMPHASIZED, HOWEVER, THAT ONCE TURKEY REACHED AGREEMENT WITH IMF, EXIMBANK COULD CONSIDER RESUMPTION OF LENDING. EXIMBANK'S ATTITUDE TOWARD TURKEY IS VERY POSITIVE IN LONG RUN.

I. EXIMBANK'S INFLUENCE ON PRIVATE BANKS. CUHRUK ASKED WHETHER EXIM COULD ENCOURAGE AMERICAN PRIVATE BANKS TO LEND TO TURKEY AFTER AGREEMENT IS REACHED WITH FUND. WINDER REPLIED THAT ONCE AGREEMENT IS REACHED WITH IMF, SIGNAL HAS GONE OUT THAT TURKISH CREDIT-WORTHINESS HAS IMPROVED. HE DID NOT BELIEVE THAT EXIMBANK WAS PREPARED TO EXERT ANY PRESSURE ON COMMERCIAL
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BANKS, SINCE USG WAS IN NO WAY READY TO ASSUME
RESPONSIBILITY FOR THEIR DEBTS.

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C O N F I D E N T I A L SECTION 2 OF 2 ANKARA 1409

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J. REVITALIZATION OF OECD CONSORTIUM. CUHRUK COMMENTED
THAT EVEN TODAY SMALL AMOUNTS OF MONEY WERE STILL COMING
TO TURKEY THROUGH OECD CONSORTIUM. CONSORTIUM
MEMBERS, HE THOUGHT, MIGHT GUARANTEE CREDITS OF COMMER-
CIAL BANKS. CONSORTIUM ASSISTANCE IN REFINANCING AND
RESCHEDULING OF DEBTS WOULD BE IMPORTANT. SOME MEMBERS OF
CONSORTIUM, HE SAID, ARE INCLINED TO THIS IDEA.
WINDER REPLIED THAT IN GENERAL US STRONGLY SUPPORTS
NOTION OF MULTILATERAL COOPERATION AND IT HAS
SUPPORTED OECD CONSORTIUM. US WOULD BE WILLING TO ATTEND
ANOTHER CONSORTIUM MEETING IF TURKS WISHED TO REVIVE
IT. QUESTION IS WHAT ROLE CONSORTIUM SHOULD PLAY. CON-
SORTIUM HAS NEVER REFINANCED BANK DEBT OR EVER BEEN A FORUM
FOR RESCHEDULING OFFICIAL DEBT. HE DID NOT KNOW WHETHER
CONSORTIUM CHAIRMAN HAD EXPERTISE TO CONDUCT SUCH A MEETING..
HE THOUGHT ROLE OF CONSORTIUM WOULD BE TO PROVIDE
PROFECT RATHER THAN BALANCE-OF-PAYMENTS FINANCING.
US WOULD BE WILLING TO EXPLORE POSSIBILITY OF REVIVING
CONSORTIUM, BUT, SINCE FOR US SSA WAS NOT CERTIAN, WINDER WAS
NOT SURE TO WHAT EXTENT CONSORTIUM WOULD BE ABOT TO MOBILIZE
ADDITIONAL AID FOR TURKEY.
IN THEIR OWN THINKING, USG OFFICIALS HAVE CONSIDERED
WHETHER IT WOULD BE USEFUL TO INCLUDE IN AN EXPANDED

GROUP EXPORT CREDIT AGENCIES AND OTHER NON-AID
ORGANIZATION/, PLUS PERHAPS NON-OECD MEMBER COUNTRIES.
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WINDER SAID HE WAS THINKING PARTICULARLY OF MIDDLE EAST
COUNTRIES BUT HE DI NOT KNOW WHETHER THIS SUGGESTION
WAS EITHER DESIRABLE OR REALISTIC.

HE ASKED WHETHER TURKS HAD TALKED TO ANY OTHER GOVERN-
MENTS ABOUT REVIVING CONSORTIUM. CUHRUK REPLIED
THAT THEY WERE ONLY BEGINNING TO THINK ABOUT IT. THEY
HAD TALKED SOME TO CONSORTIUM CHAIRMAN GIEL.
TURKISH CABINET, HOWEVER, HAD TAKEN NO OFFICIAL POSITION
ON MATTER.

K. US/TURKISH TRADE. CUHRUK RAISED GENERAL SUBJECT
OF TRADE RELATIONS. WINDER SUGGESTED THAT IF TURKS HAD
SPECIFIC PROBLEMS, US SIDE WOULD WELCOME CONSIDERING
THEM.

CUHRUK CITED TOBACCO AS AN EXAMPLE, COMMENTING THAT US
WAS NOT BUYING MUCH TURKISH TOBACCO. US FIRMS APPEAR TO BE USING
TURKEY AS A STORAGE DEPOT, BUYING ONLY AS NEEDED EVEN THOUGH
TOBACCO STOCKS IN US WERE LOW. US SIDE SUGGESTED THAT DIFFICULTY
MIGHT BE FUNCTION OF OVER-SUPPLY SITUATION THIS YEAR AND US BUYER
RESISTENCE TO HIGH TURKISH EXPORTPRICES LAST YEAR.

CUHRUK ASKED FOR NAME OF US COMPANY MENTIONED IN PLENARY AS IN-
TERESTED IN BUYING GRAIN. US SIDE INFORMED HIM THAT IT WAS
CONTINENTAL.

CUHRUK ALSO MENTIONED FILBERTS, SUGGESTING THAT THIS WAS A TRADE
PROBLEM. US SIDE REPLIED THAT, WHILE RECENT US
LEGISLATION SET STANDARDS FOR IMPORTED FILBERTS, THERE HAD BEEN
NO INDICATION THAT TURKISH NUTS WERE BEING KEPT OUT OF US AS RE-
SULT. CUHRUK AGREED.

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5. CENGIS ALPER, DEPUTY DIRECTOR GENERAL (FOREIGN FINANCING),
TURKISH TREASURY, ATTEMPTED TO SUM UP RESULTS OF DISCUSSION. SSA,
HE THOUGHT, WAS NOT A BIG POSSIBILITY FOR TURKEY. EXIMBANK WAS
WAITING FOR GREEN LIGHT FROM IMF, US REPLY TO ALL OTHER
RTURKISH SUGGESTIONS HAD BEEN NEGATIVE. RESCHEDULING OF OFFICIAL
DEBT WAS OF LITTLE INTEREST TO TURKEY SINCE THE SERVICE ON
THIS DEBT WAS RELATIVELY SMALL. WHERE TURKEY NEEDS HELP IS WITH

PRIVATE DEBTS. WINDER AGREED THAT, UNFORTUNATELY, ALPER HAD ACCURATELY SUMMED UP USG CAPABILITY FOR PROVIDING BILATERAL ASSISTANCE TO TURKEY AND HELPING WITH PRIVATE DEBTS.

6. ALPER REMARKED THAT WITHOUT SHORT-TERM ASSISTANCE FROM US AND OTHER SOURCES, THERE WOULD BE NO LONG-TERM. FIRST PROBLEM FOR TURKEY IS TO OBTAIN NEW MONEY TO PAY OFF ITS DEBTS. THERE IS LITTLE POSSIBILITY FOR IT TO DEDUCE ITS IMPORTS SUBSTANTIALLY. IT MUST PAY ALMOST TWO BILLION DOLLARS FOR IRON AND STEEL AND ANOTHER 500 MILLION FOR FERTILIZER. IF EXIMBANK COULD PROVIDE TURKEY WITH 100 MILLION DOLLARS FOR PAYMENT OF IMPORTS, THIS ACTION WOULD HAVE AN IMMEDIATE BALANCE-OF-PAYMENTS EFFECT. WINDER REPLIED THAT HE FOUND IT DIFFICULT TO BELIEVE THAT EXIM WOULD WANT TO INCREASE ITS EXPOSURE BY 100 MILLION DOLLARS IN 1978.

7. WINDER SAID THAT HE WOULD LIKE TO EXPRESS HIS CONCERN WITH TIMING OF ANNOUNCEMENT OF TURKEY'S STABILIZATION PROGRAM. IN HIS PERSONAL VIEW, IT WOULD BE "DISASTER" FOR TURKEY TO ANNOUNCE A STABILIZATION PROGRAM THAT IMF WOULD LATER FIND ACCEPTABLE. IT WAS ENTIRELY UNDERSTANDABLE TO HIM THAT TURKISH GOVERNMENT DID NOT WANT TO APPEAR TO BE DICTATED TO BY IMF, BUT IF IMF THOUGHT TURKEY'S CURRENT ACCOUNT GAP WAS TOO LARGE TO BE FINANCED, AND THEREFORE COULD NOT PROVIDE A STANDBY CREDIT, TURKEY WOULD BE PUT IN A DIFFICULT SITUATION.

8. AT SEVERAL POINTS THROUGHOUT THE MEETING WINDER
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PRESSED THE TURKISH SIDE FOR DETAILS ABOUT THEIR PROJECTIONS OF THE BALANCE-OF-PAYMENTS FINANCING GAP FOR 1978 AND THEIR INTENTIONS FOR FILLING THE GAP. THE TURKS AVOIDED RESPONDING TO THIS POINT; AND, WHEN PRESSED SAID THEY WOULD HAVE SOME FIGURES THE NEXT DAY. (THE TURKS NEVER DID MAKE A DETAILED PRESENTATION OF THEIR 1978 PROJECTIONS AND PLANS).

9. WINDER CONCLUDED BY EXPRESSING HIS APPRECIATION FOR MEETING. IT WAS NOT VERY PLEASANT, HE SAID, FOR US SIDE TO COME TO TURKEY IN EFFECT WITH EMPTY POCKETS, BUT US SIMPLY DID NOT HAVE PROGRAMS TO ENABLE IT TO RESPOND TO SHORT-TERM BALANCE-OF-PAYMENT PROBLEMS. HE WISHED TO STRESS IMPORTANCE OF AN AGREEMENT BETWEEN TURKEY AND FUND. US WOULD ANTICIPATE SUPPORTING SUCH AN AGREEMENT IN IMF EXECUTIVE BOARD.

11. AMBASSADOR CUHRUK REGRETTED THAT NOTHING POSITIVE HAD COME OUT OF DISCUSSION. STABILIZATION PROGRAM WHICH

HAS JUST BEEN DEVELOPED, HE SAID, WAS A SPECIAL EFFORT
BY A NEW GOVERNMENT. HE THOUGHT THAT SOME
SPECIAL EFFORT WAS ALSO DESIRABLE FROM TURKEY'S
FRIENDS AND ALLIES. HE COULD ONLY REPEAT WHAT SECRETARY
GENERAL ELEKDAG HAD SAID: THAT THE TURKISH SIDE FELT
DECEIVED THAT USG HAD NOT COME UP WITH CONCRETE PROPOSALS.
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